

Message Text

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PAGE 01 BELGRA 06561 071503Z
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SUBJ: NEW JOINT VENTURE-HONEYWELL INFORMATION SYSTEMS INC.
/E.I. NIS/PROGRESS

REF: BELGRADE 1991

1. THE LATEST U.S.-YUGOSLAV JOINT VENTURE (J/V) AGREEMENT WAS SIGNED AUGUST 10 IN MINNEAPOLIS DURING AUGUST 1-12 VISIT OF PROGRES AND ELEKTRONSKA-INDUSTRIJA NIS REPRESENTATIVES TO U.S. DIRECTOR GENERAL OF E.I. NIS, DRAGON MIJKOVIC, SIGNED FOR E.I. NIS AND DUSAN PETROVIC, DIRECTOR PROGRES-INFORMATIKA DIVISION, SIGNED FOR PROGRES. J/V WILL PRODUCE HONEYWELL LEVEL 6 COMPUTERS AND THREE TYPES OF SERIAL PRINTERS. BY EMBASSY COUNT THIS IS TWENTITH U.S.-YUGOSLAV J/V.

2. ON SEPTEMBER 6 PETROVIC PROVIDED EMBOFFS WITH FOLLOWING ADDITIONAL DETAILS ON NEW J/V:

--THREE AGREEMENTS WERE SIGNED IN MINNEAPOLIS. FIRST WAS J/V AGREEMENT. SECOND WAS LICENSING AGREEMENT PROVIDING HONEYWELL TECHNOLOGY TO NEW J/V. THIRD WAS TRADEMARK AGREEMENT. SIGNING OF AGREEMENTS FOLLOWED HARD AND DETAILED LAST MINUTE NEGOTIATIONS IN U.S.

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PAGE 02 BELGRA 06561 071503Z

--INITIAL EQUITY OF J/V IS 8 MILLION. HONEYWELL HAS 30 PERCENT EQUITY. REMAINDER IS DIVIDED BETWEEN E.I. NIS AND PROGRES. (WE UNDERSTAND FROM HONEYWELL THAT E.I. NIS WILL HOLD 63 PERCENT AND PROGRES 7 PERCENT.) J/V MANAGEMENT BOARD WILL CONSIST OF TWO REPRESENTATIVES EACH FROM E.I. NIS AND HONEYWELL AND ONE FROM PROGRESS.

--J/V AGREEMENT IS EXPECTED TO BE REGISTERED WITHIN TWO MONTHS WITH PRODUCTION TO BEGIN BY END CY 1978. PRODUCTION WILL TAKE PLACE IN NIS. RATION OF IMPORTED PARTS TO LOCALLY PRODUCED ONES WILL DECREASE GRADUALLY. WITHIN THREE YEARS 70 PERCENT OF COMPONENTS WILL BE PRODUCED LOCALLY.

--TO WORK WITH J/V, HONEYWELL WILL PROBABLY BRING IN THREE TECHNICAL/FINANCIAL PEOPLE FROM U.S. AND MARKETING PERSON FROM ITS ITALIAN SUBSIDIARY.

--ALTHOUGH CONTRIBUTING EQUITY FROM THE BEGINING, PROGRES WILL MAINTAIN LOW PROFILE IN J/V UNTIL END 1979. THIS WILL ALLOW IT TO FINISH FULFILLING CERTAIN SERVICE CONTRACTS. PROGRES WILL PROVIDE MARKETING, INSTALLATION AND SUPPORT SERVICES FOR PRODUCTS PRODUCED BY J/V.

--HONEYWELL WILL PERMIT NEW JOINT VENTURE TO EXPORT TO APPROXIMATELY 45 COUNTRIES IN EASTERN EUROPE, ASIA, AND AFRICA. BEGINNING IN LATE 1979 OR EARLY 1980 PROGRES WILL PROCEED WITH PLANS TO ESTABLISH WITH HONEYWELL ASSISTANCE A "SOFTWARE HOUSE", A COUNSELLING FACILITY WHICH WILL PROVIDE SERVICE SUPPORT TO J/V MARKETING EFFORTS. THIS ORGANIZATION COULD EVENTUALLY EMPLOY 300-400 PEOPLE AND COULD DEVELOP INTO A SEPARATE PROGRES/HONEYWELL J/V. IT WILL BE ORIENTED TOWARD TURNKEY PROJECTS IN THIRD WORLD MARKETS AND WILL TRY TO BENEFIT FROM YUGOSLAVIA'S LIMITED OFFICIAL USE

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PAGE 03 BELGRA 06561 071503Z

CLOSE TIES WITH THIRD WORLD. PETROVIC CLAIMS HONEYWELL HAS AGREED IN PRINCIPLE TO THIS IDEA AND THAT UP TO NOW HONEYWELL HAS ONLY ESTABLISHED SIMILAR ARRANGEMENTS WITH TWO OTHER COUNTRIES (JAPAN AND BRAZIL).

3. COMMENT: PETROVIC'S COMMENTS ON A "SOFTWARE HOUSE" SEEM SOMEWHAT OPTIMISTIC AT THIS EARLY STAGE. NEVERTHELESS NEWLY EXPANDED TIES WITH HONEYWELL SEEM TO OFFER ONE OF BEST PROSPECTS TO DATE FOR EVENTUALLY PUTTING INTO PRACTICE OFTEN STATED BUT RARELY IMPLEMENTED YUGOSLAV DESIRE FOR CLOSE COOPERATION WITH U.S. FIRMS IN PENETRATING THIRD WORLD MARKETS. ALTHOUGH PETROVIC APPEARED ENTHUSIASTIC ABOUT J:V HE CLEARLY HAD GREATER INTEREST IN "SOFTWARE HOUSE". THIS COULD BE RELATED TO REPORTED RELUCTANCE ON PART OF PROGRESS TO ENTER IN J/V. ACCORDING TO HONEYWELL REPRESENTATIVES, WHO VISITED EMBASSY ON JULY 13, SERBIAN GOVERNMENT AUTHORITIES HAD TO REALLY PRESSURE PROGRES INTO JOINING J/V. IN LAST YEAR OR SO YUGOSLAV FOREIGN TRADE ORGANIZATIONS (FTO'S) HAVE BEEN CRITICIZED BY PRESS FOR REAPING LARGE PROFITS WITHOUT REALLY PRODUCING ANYTHING TANGIBLE. FTO'S HAVE BEEN PRESSURED BY GOVERNMENT TO ENTER INTO PRODUCTION ARRANGEMENTS WITH YUGOSLAV MANUFACTURERS. PROGRES, WHICH IS AGENT FOR HONEYWELL, INVESTED VERY HEAVILY

IN ESTABLISHING SERVICE FACILITIES FOR HONEYWELL PRODUCTS AND
MIGHT HAVE BEEN RELUCTANT TO DEVOTE SOME OF THESE ASSETS TO
J/V WITH E.I. NIS JUST WHEN THEY WERE STARTING TO PAY OFF
HANDSOMELY. NOTE: PETROVIC REQUESTED THAT J/V SIGNING BE KEPT
QUIET UNTIL AGREEMENT REGISTERED. THEN YUGOSLAV PARTNERS PLAN
BIG PUBLICITY CAMPAIGN.
EAGLEBURGER

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